

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7673

Investigation into the 2011 Base Rate Adjustment filed)
by Green Mountain Power Corporation under the)
Alternative Regulation Plan)

Order entered: 10/5/2010

**ORDER OPENING INVESTIGATION AND NOTICE
OF PREHEARING CONFERENCE**

DISCUSSION

On July 30, 2010, Green Mountain Power Corporation ("GMP") filed its 2011 Base Rate Adjustment pursuant to its Alternative Regulation Plan.¹ GMP requested a 3.11 percent rate increase for all customers except the C&I Transmission customer class, which would receive a 3.20 percent rate increase. As filed, the rate increase would be effective with bills rendered October 1, 2010. The Vermont Department of Public Service ("Department"), by letter dated July 30, 2010, recommended that the Vermont Public Service Board ("Board") allow the tariff filing to take effect without suspension or investigation.²

The Board has determined that GMP's tariff filing and the proposed rate increase should take effect without suspension. However, the report of the Department's consultant raises an issue that merits further investigation. Specifically, the consultant observed that GMP's filing includes the recovery of \$2,625,269 of costs associated with the Lowell Mountain wind farm project ("Lowell Mountain"), which represents a one-year amortization of these costs. According to the consultant's report, under traditional Vermont ratemaking, these costs would be capitalized and amortized over the life of the asset when the construction of the asset is approved and the plant is used-and-useful to ratepayers, rather than being recovered in a single year. Nonetheless,

1. GMP subsequently filed amendments to the tariff filing for Rates 11, 16, and 18 to correct errors. The amendments were filed August 30 and September 14, 2010.

2. The Department also recommended that the Board approve the filing as amended. *See* letters of August 30 and September 20, 2010.

the Department agrees with GMP's proposed treatment "because it results in lower long term costs for rate payers."

Our review of the consultant's report and GMP's responses to questions raised by Board staff highlights several issues related to recovery of Lowell Mountain costs in GMP's rates at this time. We recognize that, under 30 V.S.A. § 218(f)(1), GMP may seek rate recovery for certain costs even if Lowell Mountain is not ultimately constructed. Specifically, that section provides:

Notwithstanding any other provision of law, an electric distribution utility subject to rate regulation under this chapter shall be entitled to recover in rates its prudently incurred costs in applying for and seeking any certificate, permit, or other regulatory approval issued or to be issued by federal, state, or local government for the construction of new renewable energy to be sited in Vermont, regardless of whether the certificate, permit, or other regulatory approval ultimately is granted.

GMP's filing is the first time the Board has considered a utility request to include costs of seeking regulatory approval for a renewable project in rates under the recently enacted Section 218(f)(1). Moreover, it occurs in the context of GMP's Alternative Regulation Plan, which entails a different ratemaking process than would otherwise apply. These two factors raise a number of issues related to the appropriate costs that must or should be included in rates. For example, Section 218(f)(1) does not mandate that GMP is entitled to recover all costs associated with development of renewable projects.³ The statute also does not appear to specify when and over what time period any recovery should occur. The rate filing would allow GMP full recovery for the enumerated Lowell Mountain costs over the next year, but it is unclear as to how and when an assessment of whether the costs are "prudently incurred" would be made.

As the Board is faced with these new issues, it is appropriate to examine the rate treatment for these costs now. The Board will permit the rate increase, including the Lowell Mountain costs, to take effect as scheduled. We will schedule a prehearing conference to discuss the process that we will follow in this case. It is our expectation that a workshop may be adequate to address many, if not all, of these issues.

3. GMP has requested cost recovery of all project costs incurred from the fall of 2008 through May 21, 2010, including costs associated with: engineering design, environmental design, an ISO New England feasibility study, landowner payments, legal work, design and purchase of met towers, miscellaneous studies, public outreach, project management, and preliminary studies.

ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. Pursuant to 30 V.S.A. § 227(b) and Section IV of Green Mountain Power Corporation's ("GMP") Alternative Regulation Plan, an investigation is opened into GMP's existing rates.

2. Pursuant to 30 V.S.A. § 10, the Public Service Board will convene a prehearing conference on Wednesday, October 20, 2010, at 11:00 A.M., at the Public Service Board Hearing Room, located on the third floor of the Chittenden Bank Building, 112 State Street, Montpelier, Vermont.

Dated at Montpelier, Vermont, this 5th day of October, 2010.

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| <u>s/ James Volz</u> |) | |
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| <u>s/ David C. Coen</u> |) | PUBLIC SERVICE |
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| <u>s/ John D. Burke</u> |) | BOARD |
| |) | |
| |) | OF VERMONT |

OFFICE OF THE CLERK

FILED: October 5, 2010

ATTEST: s/ Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)